S&P Global Ratings

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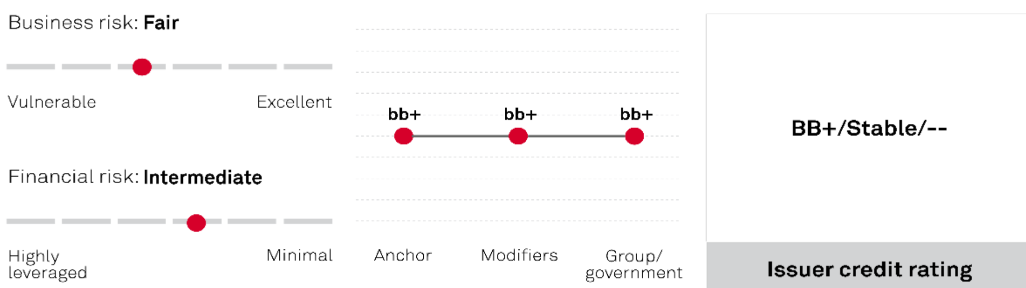
Maxima Grupe UAB

June 7, 2023

Ratings Score Snapshot



Primary contact

Lukas Brockmann
Frankfurt
49-6933999220
lukas.brockmann
@spglobal.com

Secondary contact

Mickael Vidal
Paris
33-14-420-6658
mickael.vidal
@spglobal.com

Credit Highlights

Overview	
Key strengths	**Key risks**
Estimated 25% market share in the Baltics (68% of revenue) thanks to a competitive price position and high brand awareness.	Modest size of €5.2 billion in sales compared with other European food retailers, with a high geographic concentration in the Baltics.
Successful expansion in Poland, with 916 stores in the country, up from 570 in 2018, representing 27% of group sales in 2022.	Increasing competition in the Baltics, as evident from Lidl's entry into Estonia and Latvia in the recent years that saw market share losses of 1%-3% in 2022 alone.
Good store format diversity, a partly owned store network, and a high share of private-label sales.	Sizable short-term debt maturities of €219 million, including €107 million of senior unsecured notes that the company will refinance with bank debt.
Leverage contained consistently below 3x and a robust cashflow generation of €96 million reported free operating cash flow (FOCF) after leases in 2022 support the credit profile.	High inflation in all its markets leading to an S&P Global Ratings-adjusted EBITDA margin contraction of 100 basis points (bps) in 2022, with absolute EBITDA stable at €368 million.

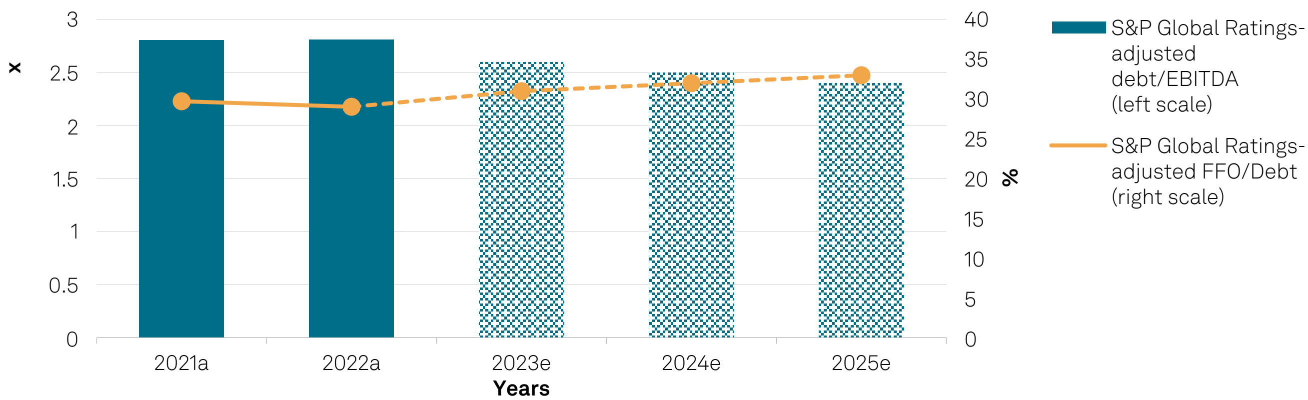
The group is privately owned by Lithuanian private corporation Vilniaus Prekyba (VP) and its main asset. We estimate that VP's leverage is lower, at 2.0x-2.5x, implying financial flexibility.	Maxima is the main contributor of VP with a 50%-70% dividend payout ratio, leading to break-even discretionary cash flow (DCF) after leases and is aggressive in light of a rather short-term financing structure.

Maxima Grupe, UAB has obtained bank loans to refinance residual €107 million of senior unsecured notes that mature in September 2023. On May 29, 2023, Maxima announced that it had signed agreements with SEB and Swedbank for a €50 million bank loan each, and expects the proceeds to be used for general business purposes, but also to refinance €107 million unsecured notes due in September 2023. The notes remained outstanding after the group tendered the €300 million notes issued in 2018 with new funds from €240 million senior unsecured notes due 2027 issued in June 2022. We note that should these lines be drawn, the ratio of secured debt on total debt would increase, which we deem less favorable to the unsecured lenders. Including the proceeds of €100 million in our analysis, liquidity improves to more than 1.5x from around 1.3x in the absence of additional financing. We factor in our analysis that in a severely adverse scenario, we would expect the parent, VP, to support Maxima.

Maxima's trading exceeds revenue expectation, but S&P Global Ratings-adjusted EBITDA remains in line with our guided range, as margins contract 100 bps to 7.1%. In 2022, the group generated reported revenue of €5.2 billion, up from €4.5 billion the previous year, reflecting revenue growth of 14.9% (12.1% on a like-for-like basis). At the same time, S&P Global Ratings-adjusted EBITDA stayed around the previous year's level, at €368 million, up from €364 million in 2021. This led to a 100 bps decline in margins to 7.1%, compared with our expectation of 7.4%-7.8%. The decrease mainly resulted from increased staff costs in all regions and higher energy costs; the expansion in Poland and Bulgaria, where Maxima has lower margins than in the Baltics and higher losses at Barbora that increased to €24 million EBITDA from €15 million in 2021.

We expect S&P Global Ratings-adjusted leverage to remain below 3x and funds from operations (FFO) to debt increase above 30% on EBITDA growth, while sizable growth investments and dividends limit reduction in adjusted debt. In 2023, we expect reported revenue growth of around 8%-9%, supported by 6%-7% like-for-like growth and 2%-2.5% growth from new store openings in Poland and Bulgaria. The growth is supported by price increases as inflation remains elevated around 9% in the Baltics and 11.8% in Poland in 2023, before decreasing to 2.5%-3.5% in the Baltics and 6.8% in Poland in 2024, while we expect a further volume decline. We expect the S&P Global Ratings-adjusted EBITDA margin to be around 7.1%-7.3% in 2023 compared with 7.1% in 2022 which is mainly supported by margin improvements in Poland due to its larger expected scale, normalization in energy costs, and operating efficiency measures. We expect further wage increases, which limits improvements in EBITDA margins. We anticipate further expansion leading to a higher total capital spending (capex) of €130 million-€160 million in the next two years from €128 million in 2022. After lease principal payments of around €95 million-€100 million, reported FOCF after leases is expected to remain at around €80 million-€100 million. Despite the solid operating cash flow generation, we expect the group to have limited cash buildup due to sizable dividends being paid to VP, leading to stable S&P Global Ratings-adjusted debt at around €1.05 billion-€1.15 billion.

S&P Global Ratings-aAdjusted leverage postion to progressively improve



a - Actuals ; e - estimated; FFO--Funds from operations.

Maxima's significant expansion in Poland improves its geographic diversification. After acquiring Emperia in 2018, the group operated 644 stores in Poland at the end of 2019. Since then, on average, it has opened 90 stores per year, and now operates 916 stores. The share of Maxima's total retail revenue increased to 27% in 2022 from 22% in 2019, reflecting the group's significant growth and increased diversification. Maxima's market position is limited, with a share of 2.3% in 2022. We expect 40-60 store openings per year, with the EBITDA margin to increase from the low point of 6.4% in 2022.

Maxima has a strong market position in the Baltics with a solid position in e-commerce. With a market share of around 25% in the Baltics, Maxima is a leading player in food retail, which we perceive as niche and less competitive than other retail markets. With Maxima's low-price position, high brand awareness, and strong diversity by store format, it has offset some of the initial impact of Lidl's entry into the Lithuanian market in 2016. Lidl's entry into the Estonian and Latvian markets had a negative impact on Maxima's market share in 2022; its share of these markets contracted by 1.0% and 2.7%, respectively. Maxima achieved €165 million in e-commerce gross revenue in 2022. The group estimates its e-commerce market share is around 75% in Lithuania and above 55% in Estonia and Latvia. It has entered Poland and is highly loss-making, with negative EBITDA of €24 million.

Maxima's credit quality is closely associated with that of its parent company, VP. Maxima is part of a wider, more diversified group, but remains the principal asset within it. Historically, Maxima's dividends to VP have partly funded VP's diversification and expansion into new businesses. This has enabled VP to grow its EBITDA base largely through self-funded investments, translating into more robust debt to EBITDA of about 2.0x-2.5x. In our view, this gives VP a cushion in case of operating setbacks affecting Maxima's credit metrics. We would expect the group to adopt a more conservative financial policy to preserve Maxima's credit metrics and its long-term investment capacities.

Outlook

The stable outlook reflects our expectations that Maxima will maintain its leading market position in the Baltics, despite intensifying competition; soundly execute its planned store expansion in Poland and Bulgaria; and can pass on inflation related costs to end customers, resulting in 8%-9% sales growth and adjusted EBITDA margins improving to 7.1%-7.3% in 2023. The outlook also takes into account Maxima's dividend distributions, funded with FOCF, and our expectation of adjusted FFO to debt of more than 30% and adjusted debt to EBITDA of about

2.5x-3.0x over the next 12-18 months. In addition, we expect stronger credit metrics and deleveraging at VP, with debt to EBITDA of 2.0x-2.5x, supported by continued adherence to a more conservative financial policy.

Downside scenario

We could lower the ratings on Maxima if:

- The group underperforms our base case, including a material decline in operating performance, with diminishing profitability because of intensifying market competition, or a weaker macroeconomic environment in the Baltics or Poland weighing on margins and cash flows;
- Maxima's or VP's financial policies become less prudent, either due to increased dividends or large-scale, debt-funded acquisitions that keep leverage at about 3.0x or above and FFO to debt below 30% at either Maxima or the wider group; or
- Maxima's or VP's liquidity deteriorates.

Upside scenario

Although it is unlikely over the next 12 months, given our understanding of management's financial policy, we could raise the ratings following a stronger operating performance than we expect at both Maxima and the overall VP group. This would include:

- Adjusted debt to EBITDA falling below 2.0x for Maxima and VP;
- Maxima's FOCF substantially exceeding its actual dividend payments, resulting in debt reduction; and
- The maintenance of adequate liquidity.

We would also need to see a financial policy commitment from Maxima and its parent to sustain these credit metrics.

Our Base-Case Scenario

Assumptions

- A stagnation in real GDP in Lithuania and Latvia in 2023 and 2.5%-3.5% in 2024; after around 2% in 2022.
- An expansion in real GDP in Poland of 0.9% in 2023 and 3.4% in 2024, after 5.2% in 2022.
- Inflation of around 9% in the Baltics in 2023 and around 2.5%-3.5% in 2024, down from more than 17% in the region in 2022. Inflation in Poland to remain high at 11.8% in 2023 and 6.3% in 2024.
- An increase in revenue of about 8%-9% in 2023 and 5%-6% in 2024, reflecting partially passed on inflation-related costs in 2022 and continued elevated inflation in 2023, leading to like-for-like growth of around 6%-7% in 2023 and 3%-4% in 2024. This is complemented by 2%-2.5% growth from store openings in the next two years, mainly in Poland and Bulgaria.
- A slight recovery in the adjusted EBITDA margins to 7.1%-7.3% in 2023 from 7.1% in 2022 which is mainly driven by improved scale and margins in Poland and lower losses at Barbora, but is constrained by our expectations of further pressure from labor costs.
- Working capital inflows of about €10 million in 2023 and neutral working capital from 2024.

- Capex of €130 million-€160 million in 2023 and 2024, given the accelerating store expansion in Poland and Bulgaria.
- Dividends of €70 million in 2023 and €90 million-€100 million in 2024, in line with the group's policy to pay out 50%-70% of last year's net income.
- No material acquisitions.

Key metrics

Maxima Grupe UAB--Key Metrics*

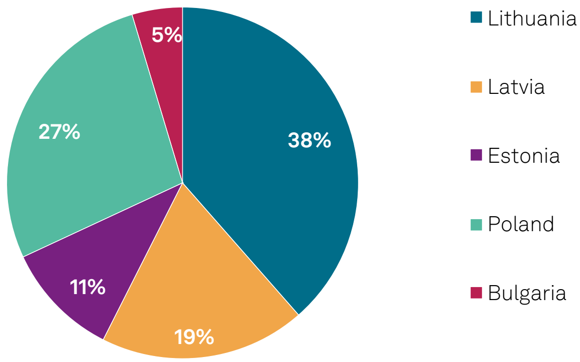
Mil. €	2021a	2022a	2023f	2024f	2025f
Revenue	4,485	5,154	5,500-5,600	5,800-6,950	6,000-6,200
Revenue growth (%)	6.1	14.9	8-9	5-6	3-4
EBITDA	364	368	400-410	420-450	450-480
EBITDA margin (%)	8.1	7.1	7.1-7.3	7.3-7.5	7.5-7.7
Funds from operations (FFO)	305	301	300-310	310-330	340-370
Free operating cash flow (FOCF)	219	192	180-200	190-210	210-230
Reported FOCF after leases	130	96	80-100	80-100	100-120
Dividends	106	95	70	90-100	100-110
Debt	1,016	1,032	1,000-1,100	1,050-1,150	1,050-1,150
Debt to EBITDA (x)	2.8	2.8	2.5-2.8	2.4-2.7	2.3-2.6
FFO to debt (%)	30	29	30-32	31-33	32-33
FOCF to debt (%)	22	19	17-19	18-20	20-22

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Company Description

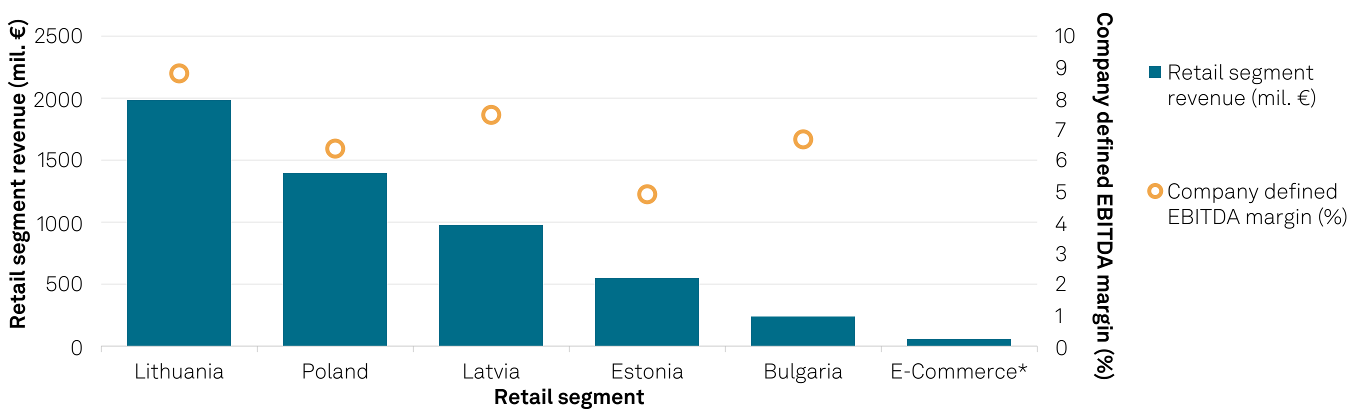
Maxima is the leading food retailer in the Baltic countries, with a market share of about 25%. Operating since 1998, the group has grown rapidly in its home market and started to expand internationally, entering Bulgaria in 2011 and Poland in 2012. In 2022, Maxima generated more than €5.2 billion in sales, with about €369 million of S&P Global Ratings-adjusted EBITDA. Maxima is fully owned by VP--a holding company with other stakes in retail and real estate group. Maxima is VP's most important asset, generating about 75% of its overall EBITDA.

2022 revenue split by region



Maxima Grupe segment split

Retail segment revenue and profitability (2022)

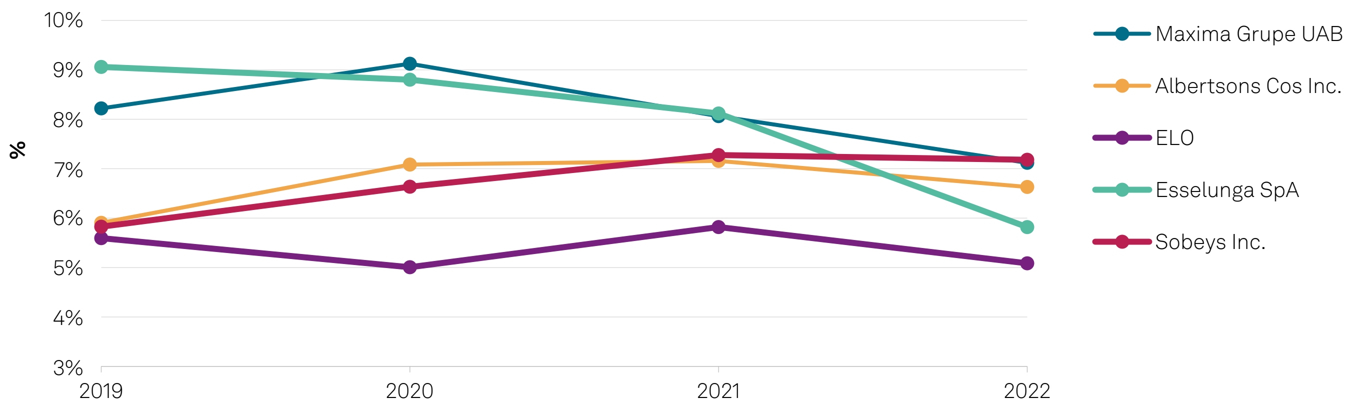


Notes: Total retail revenue, including intersegment; *E-Commerce EBITDA margin is negative.

Peer Comparison

Maxima's peers in the food retail sector include ELO, Sobeys Inc., Esselunga S.p.A., and Albertsons Cos. Inc. In this peer group, Maxima has the weakest business risk profile and is a relatively small player. Although Maxima's adjusted EBITDA margins are around 1% better than those of its European peers, this could be broadly attributable to the rated peers having a higher share of online revenue than Maxima, and Maxima's margin-accretive real estate segment. Moreover, we have seen some degree of structural margin correction to 7.1% in 2022 from 8.2% in 2019 as it increases the size of its online segment and grows in Poland, which achieved company defined EBITDA margins of 6.4%. Although Maxima is the leader in its market, its business risk profile is constrained, mainly by its limited geographic diversification and the size of the addressable market that it caters to compared with the markets of its peers. Most of Maxima's peers have some degree of geographic concentration--with ELO largely concentrated in France, Sobeys Inc. in Canada, and Albertsons in America--the addressable market for these peers is significantly larger than the Baltics, where Maxima operates. Esselunga (BB+/Negative/--) is the closest peer we rate, which has similar characteristics in terms of market share (more than 20%), position in online delivery, and low like-for-like growth prospects in its home market Italy.

S&P Global Ratings-adjusted EBITDA margin



Maxima Grupe UAB--Peer Comparisons

	Maxima Grupe UAB	ELO	Sobeys Inc.	Esselunga SpA	Albertsons Cos. Inc.
Foreign currency issuer credit rating	BB+/Stable/--	BBB-/Stable/A-3	BBB-/Stable/--	BB+/Negative/--	BB/Watch Pos/--
Local currency issuer credit rating	BB+/Stable/--	BBB-/Stable/A-3	BBB-/Stable/--	BB+/Negative/--	BB/Watch Pos/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-04-30	2022-12-31	2023-02-25
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	5,154	33,485	22,331	8,618	73,594
EBITDA	368	1,703	1,604	501	4,880
Funds from operations (FFO)	301	1,300	1,304	423	3,779
Interest	49	233	230	42	864
Cash interest paid	44	256	212	71	891
Operating cash flow (OCF)	319	964	1,275	630	3,276
Capital expenditure	128	1,127	577	377	2,041

Maxima Grupe UAB--Peer Comparisons

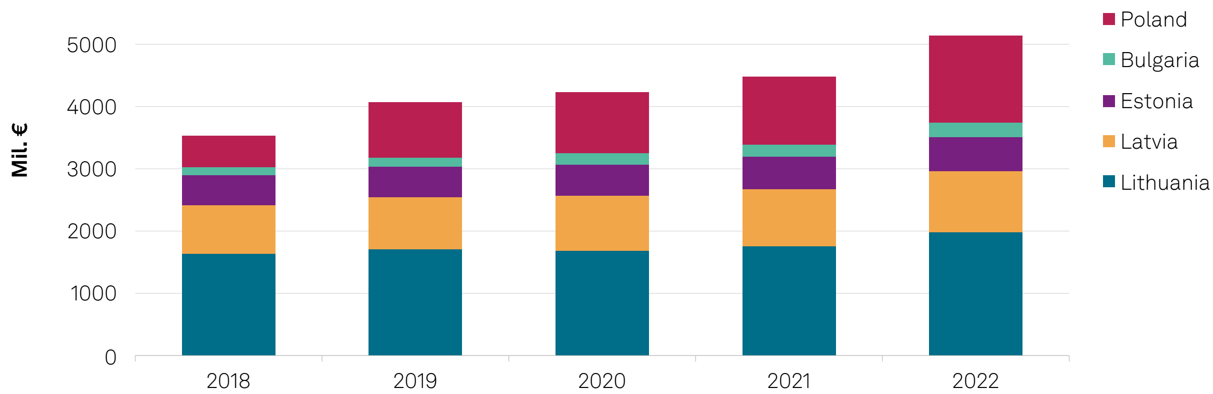
Free operating cash flow (FOCF)	192	(163)	698	252	1,235
Discretionary cash flow (DCF)	97	(374)	328	237	(2,761)
Cash and short-term investments	287	2,609	601	666	432
Gross available cash	287	2,609	601	666	446
Debt	1,032	4,126	5,279	2,075	18,762
Equity	417	6,324	3,051	1,873	1,527
EBITDA margin (%)	7.1	5.1	7.2	5.8	6.6
Return on capital (%)	12.7	5.6	11.5	3.2	12.2
EBITDA interest coverage (x)	7.5	7.3	7.0	11.9	5.6
FFO cash interest coverage (x)	7.8	6.1	7.1	7.0	5.2
Debt/EBITDA (x)	2.8	2.4	3.3	4.1	3.8
FFO/debt (%)	29.2	31.5	24.7	20.4	20.1
OCF/debt (%)	31.0	23.4	24.1	30.3	17.5
FOCF/debt (%)	18.6	(4.0)	13.2	12.2	6.6
DCF/debt (%)	9.4	(9.1)	6.2	11.4	(14.7)

Business Risk

Maxima has maintained its leading position in the Baltics, despite the increase in pressure from Lidl's arrival in Lithuania in 2016 and Latvia and Estonia in the last two years. In our view, this is thanks to Maxima's competitive price position and high brand awareness. However, the Baltics market has evolved over the past several years, witnessing greater competition since Lidl's entry, and we understand that Maxima is losing market share. The group's market share in its home country of Lithuania declined to 30.7% in 2022, down from 34% in 2019. With Lidl's entry into Latvia and Estonia, we saw market-share decrease in 2022 to 23.5% from 26.2% for Latvia and to 15.3% from 16.3% from Estonia. That said, we anticipate that the regions' like-for-like revenue growth will remain in the range of 3%-4% over the next two years, mainly driven by food price inflation. Maxima enhanced its footprint in Poland in 2018 with the acquisition of Emperia. The growth markets, Bulgaria and Poland, in which we assume most of the store openings will occur, contributed 31.7% to group revenue in 2022 up from 26.2% in 2019.

Regional revenue evolution

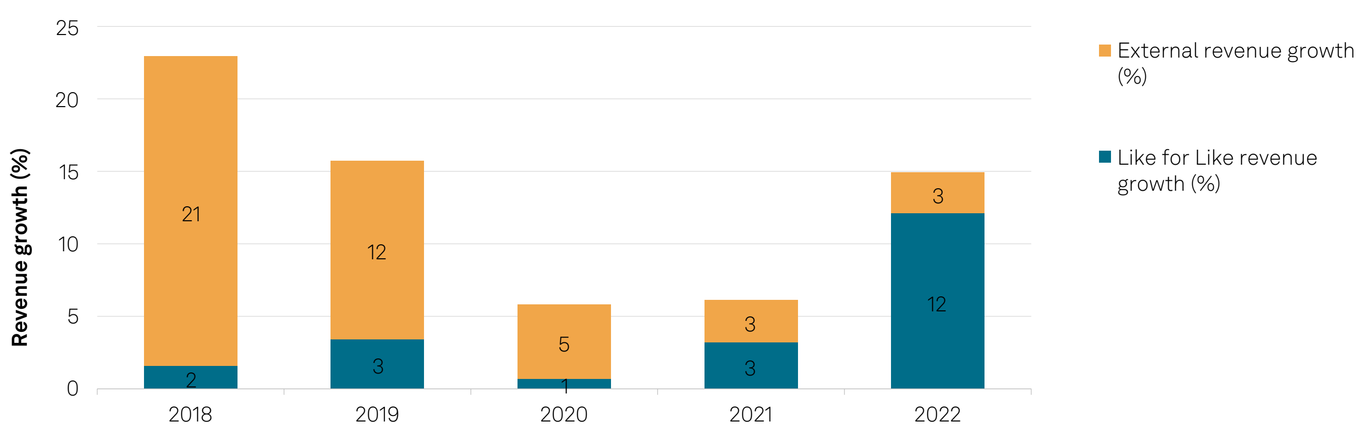
2018 - 2022 actuals



We believe that the resilience and relative predictability of the food retail industry provides the group with some visibility on revenue and earnings. Although inflation is at its highest levels in decades, we consider food retail as nondiscretionary and less cyclical than other sectors. This leads us to assume that Maxima's operating performance should remain relatively stable. While up to 2019 external growth from acquisitions and store openings were the main contributors to revenue growth, this has shifted to like-for-like growth, mainly due to inflation approaching 20% in 2022 in Maxima's markets.

Maxima historical revenue growth

External growth was the key driver for Maxima until 2020



Like- for- like definition as per company definition; external growth calcualted as difference between reported and like-for-like growth. Source: Company information

Maxima also benefits from a resilient operating model. In particular, we note the meaningful sales contribution from private labels of about 22%, which is in line with that of Maxima's other European peers, as well as its diverse store formats. The group has been focusing on smaller stores as consumer preferences shift toward convenience stores. Both factors, in our view, support margins and help Maxima maintain its competitive advantage over peers. We understand that the group has a local sourcing strategy that provides it with fairly good bargaining power, despite its limited size.

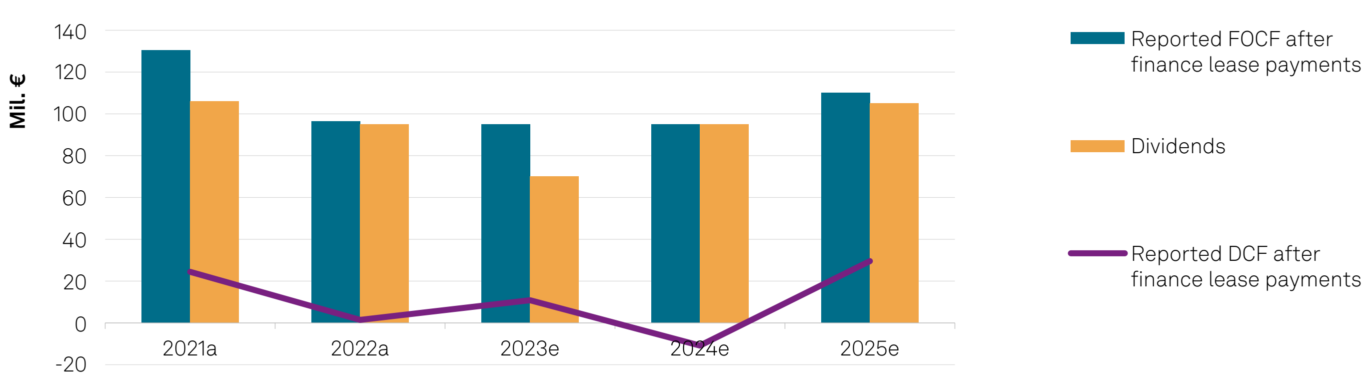
We believe that Maxima benefits from a partly owned real estate network, with property, plant, and equipment (excluding right-of-use assets) of around €790 million as of December 2022. Although online gross revenue still represents a small part of Maxima's revenue, at 3.2% of sales, we believe that the group is well positioned in the online space, since it faces little competition and has a dedicated online offering through the Barbora website. We anticipate that the contribution from Maxima's e-commerce segment will gradually increase in the next two years, with EBITDA close to breakeven.

Our view of Maxima's business risk profile is constrained by the group's small scale and EBITDA base compared with other food retailers we rate, as well as its substantial geographic concentration in the Baltics. These factors tend to limit the group's bargaining power with suppliers, and its relatively narrow EBITDA base means less flexibility to adapt to potential disruptions, either from competition or unforeseen operating events, without hurting the credit ratios. Additionally, the group's revenue concentration exposes it to potential macroeconomic headwinds in the Baltics. Maxima has made positive strides toward diversifying away from the Baltics and toward Poland and Bulgaria, and into e-commerce, with store retail revenue from the Baltics representing 68% of total retail revenue in 2022, down from about 75% in 2019.

Financial Risk

Maxima's adjusted debt leverage as of year-end 2022 stood at 2.8x, which was largely in line with our base case, although deleveraging remains constrained owing to growth capex and high dividend distributions. This is also evident from the high contribution from store openings to revenue growth over the last two years. We expect the group to be in line with our metrics, underpinned by leverage below 3x and FFO to debt around and increasing above 30% in 2023 on the back of EBITDA growth. We do not anticipate meaningful reduction in S&P Global Ratings-adjusted debt because DCF after leases will be low.

Reported DCF after finance lease payments to improve but remain low



a - Actuals ; e - estimated; FOCF--Free operating cash flow; DCF--Discretionary cash flow.

Maxima will have resilient adjusted FOCF to debt of 18%-20% in 2023 and 2024, which demonstrates high cash generation and a robust ability to withstand operating setbacks and potential to scale back on growth capex if needed. We understand that management intends to maintain an efficient balance sheet at Maxima, with no meaningful deleveraging. While the group has reduced its dividend to VP this year to €70 million from €95 million in 2022, we expect it to distribute around 70% of the previous year's net income from 2024.

Debt maturities

- 2023: €219 million (including the rated €107 million senior unsecured notes due September 2023)
- 2024: €41 million
- 2025: €20 million (estimate)
- 2026: €20 million (estimate)
- 2027: €256 million (estimate; including the rated €240 million senior unsecured notes due July 2027)
- Thereafter: €10 million

Maxima Grupe UAB--Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR
Revenues	3,993	4,226	4,485	5,154
EBITDA	329	387	364	368
Funds from operations (FFO)	275	328	304	301
Interest expense	32	35	39	49
Cash interest paid	32	33	37	44
Operating cash flow (OCF)	303	277	325	319
Capital expenditure	127	100	106	128
Free operating cash flow (FOCF)	176	178	219	192
Discretionary cash flow (DCF)	94	91	113	97
Cash and short-term investments	273	184	219	287
Gross available cash	273	184	219	287
Debt	1,050	1,095	1,015	1,032
Common equity	342	387	415	417
Adjusted ratios				
EBITDA margin (%)	8.2	9.1	8.1	7.1
Return on capital (%)	13.3	15.4	13.0	12.7
EBITDA interest coverage (x)	10.1	11.1	9.4	7.5
FFO cash interest coverage (x)	9.6	10.8	9.2	7.8
Debt/EBITDA (x)	3.2	2.8	2.8	2.8
FFO/debt (%)	26.2	30.0	30.0	29.2
OCF/debt (%)	28.8	25.3	32.0	31.0

Maxima Grupe UAB--Financial Summary

FOCF/debt (%)	16.8	16.2	21.6	18.6
DCF/debt (%)	8.9	8.3	11.1	9.4

Reconciliation Of Maxima Grupe UAB Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	567	417	5,154	369	182	49	368	363	95	128
Cash taxes paid	-	-	-	-	-	-	(23)	-	-	-
Cash interest paid	-	-	-	-	-	-	(44)	-	-	-
Lease liabilities	683	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(218)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(44)	-	-
Total adjustments	465	-	-	(0)	1	-	(67)	(44)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	1,032	417	5,154	368	183	49	301	319	95	128

Liquidity

We assess Maxima's liquidity as adequate. This reflects our calculation that Maxima's sources of liquidity will exceed its uses by more than 1.2x over the next 12 months, and our expectation that sources would cover uses, even if EBITDA declined by 15%. The assessment is supported by the recent announcement that Maxima has signed two €50 million bank loans for five years. The issuance improves our assessment to more than 1.5x from 1.3x, excluding the debt issuance. Our assessment is further underscored by management's strong commitment to maintain sound liquidity of at least €100 million.

Principal liquidity sources

We estimate that Maxima's liquidity sources for the 12 months from Jan. 1, 2023, include:

- Unrestricted cash and liquid investments of about €218 million;
- €100 million bank facilities due in 2028;
- Available bilateral facilities of €82 million; and
- Our forecast of cash FFO of €220 million-€230 million.

Principal liquidity uses

We estimate that liquidity uses for 12 months from Jan. 1, 2023, include:

- Debt repayments of €219 million;
- Seasonal working capital requirements of about €50 million;
- Annual maintenance capex of €70 million-€100 million; and
- Dividends to VP of €70 million.

Covenant Analysis

Requirements

While there are no maintenance covenants, Maxima has to comply with incurrence-of-debt covenants stipulating a fixed-charge coverage ratio of below 2x and a group-defined net leverage ratio of below 4.25x.

Compliance expectations

We expect that Maxima will maintain sufficient headroom above that level of leverage over the next 24 months.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

Environmental	Social	Governance
- N/A	- N/A	- Other governance factors

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a neutral consideration in our analysis of Maxima. Like other European food retailers, Maxima focuses on improving its environmental impact. The group aims to minimize food waste; reduce greenhouse gas emissions and reduce its recourse to plastic packaging. Maxima has committed to several targets to meet these challenges, including reducing scope 1 and 2 carbon dioxide emissions by 42% by 2030, compared with the 2021 level (absolute Scope 1 and 2 emissions increased by 3% compared against the base year). By comparison, ELO's target is to reduce scope 1 and 2 CO2 emissions by 46% by 2030 (compared with 2019) and Rewe by 30% by 2030 (compared with 2019). Carrefour and Ahold Delhaize have committed to net zero by 2040, and Tesco by 2035. Maxima aims to approve its targets with the SBTi and invest around €100 million over the next seven years.

Social factors are a neutral consideration. Retail is a labor-intensive industry, and the political and societal focus on paying a living wage has increased. In retail, labor costs are one of the largest expenses and employers have been raising wages and benefits to attract and retain workers. Maxima employs 38,256 people in Europe. Collective bargaining agreements are in place for employees in Lithuania and Estonia, reflecting 48% of total employees. Markets in which Maxima operates have experienced the highest inflation in the eurozone varying between 13%-19.5% in 2022 compared with 8.4% for the Eurozone. We also estimate that inflation will remain higher in Maxima's operating markets than in the eurozone in 2023. The high inflation implies further pressure to raise wages, which is reflected in our guidance that the S&P Global Ratings-adjusted EBITDA margin will stay at 7.1%-7.3% in 2023.

Governance factors are a moderately negative consideration in our credit rating analysis of Maxima due to a greater number of senior management changes than the industry average. Although we generally associate frequent changes with the risk of strategic and operational missteps, we note that Maxima's operating performance has been stable. Moreover, the majority of the leaving personnel have remained part of the group in different positions.

Group Influence

Maxima is part of the wider VP group, whose main consolidated asset is Maxima. VP also consolidates a fairly geographically diversified pharmacy business, Euroapotheca, and a real estate business, Akropolis Group (BB+/Stable/--), essentially operating in the Baltics. Both these entities are positive contributors to the group's overall profitability. Deleveraging should be faster at the VP level, because, owing to the multiple cash-generative businesses, it does not pay regular dividends to its holding company, translating into a rapid buildup of cash. Furthermore, we understand that VP sticks to a prudent financial policy and intends to keep run-rate reported leverage below 2.5x.

Since Maxima contributes the bulk of the overall group's revenue and earnings, and we consider Maxima to be the largest business of the ultimate shareholder, Mr. Nerijus Numa, we believe that it is a core entity to the wider group. We also understand that there is no plan to partially list Maxima and that the main shareholders intend to keep clear control of it.

We assess the wider group credit profile (GCP) at 'bb+', which is driven by and consistent with our assessment of Maxima's stand-alone credit profile (SACP) of 'bb+'. Hence, our rating on Maxima is in line with its SACP and the GCP.

Issue Ratings--Subordination Risk Analysis

Capital structure

Maxima's capital structure comprises about €566 million of financial debt, of which €107 million is a senior unsecured bond issued in October 2018 and maturing in September 2023 and a €240 million senior unsecured bond issued in July 2022 and maturing in July 2027. In addition, the group still has about €158 million of secured and unsecured debt at subsidiaries. We note that the two €50 million bank loans raised with SEB and Swedbank are secured, albeit only with bank accounts.

Analytical conclusions

The 'BB+' issue rating on the senior unsecured bonds is in line with the long-term issuer credit rating on Maxima. The issue rating reflects the moderate amount of priority-ranking liabilities in the capital structure. These liabilities comprise secured debt and unsecured debt, both at the group and subsidiary levels. We estimate the priority debt ratio at about 33%, which is below our 50% threshold, supporting our view that there are no significant elements of subordination risk in the capital structure at this stage. That said, with the €100 million secured bank loans put in place to secure the refinancing of the €107 million senior unsecured bonds, the priority debt ratio could exceed the 50% threshold, which might result in a notching down of the remaining €240 million senior unsecured notes due 2027. Considering unsecured bond markets are unattractive at the moment, we would expect this ratio to remain elevated, thus weakening unsecured lenders' position in the group's capital structure. However, we note the group has sizable cash on the balance sheet of €286.7 million and a supportive cashflow profile that enables it to manage its capital structure.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency issuer credit rating	**BB+/Stable/--**
Business risk	**Fair**
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Fair
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb+**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Top Trends 2023: Retail And Restaurants, Jan. 23, 2023
- Update: Maxima Grupe, UAB, June 29, 2022

Ratings Detail (as of June 07, 2023)*

Maxima Grupe UAB	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
21-Oct-2021	BB+/Stable/--
28-Oct-2020	BB+/Negative/--
12-Oct-2018	BB+/Stable/--
Related Entities	
Akropolis Group UAB	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.